

ANNUAL REPORT FOR THE 104th YEAR
D.H. BALDWIN COMPANY
YEAR ENDING DECEMBER 31, 1966

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D. H. BALDWIN COMPANY

Annual Report for the One Hundred and Fourth Year
Ending December 31, 1966

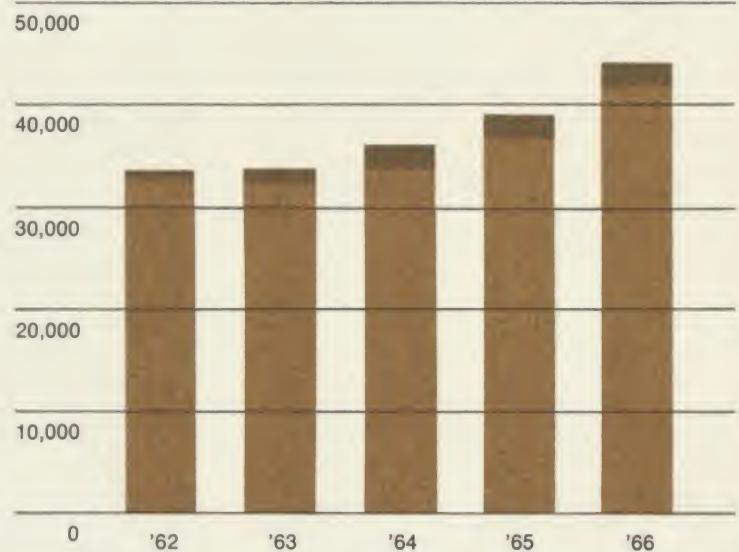
Baldwin is Pianos. In a hundred years, we've learned a lot about pianos. But we're still trying to learn more. That's why we can build the most talked about new concert grand in years. And what we prove on the concert stage helps us make every Baldwin Piano the best piano made.



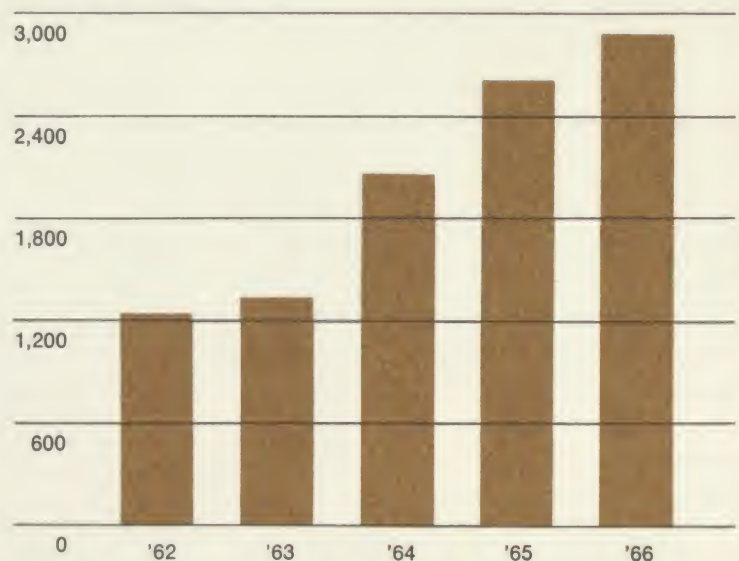
FINANCIAL HIGHLIGHTS 1966
D. H. Baldwin Company and Subsidiaries

	1966	1965
Net sales	\$44,205,413	\$39,236,097
Earnings before taxes.....	5,323,705	4,800,654
Federal income taxes	2,420,000	2,180,000
Net earnings	2,903,705	2,620,654
Per common share	\$2.58	\$2.33
Dividends paid on common stock..	1,181,089	1,031,530
Per common share	\$1.05	\$.92½

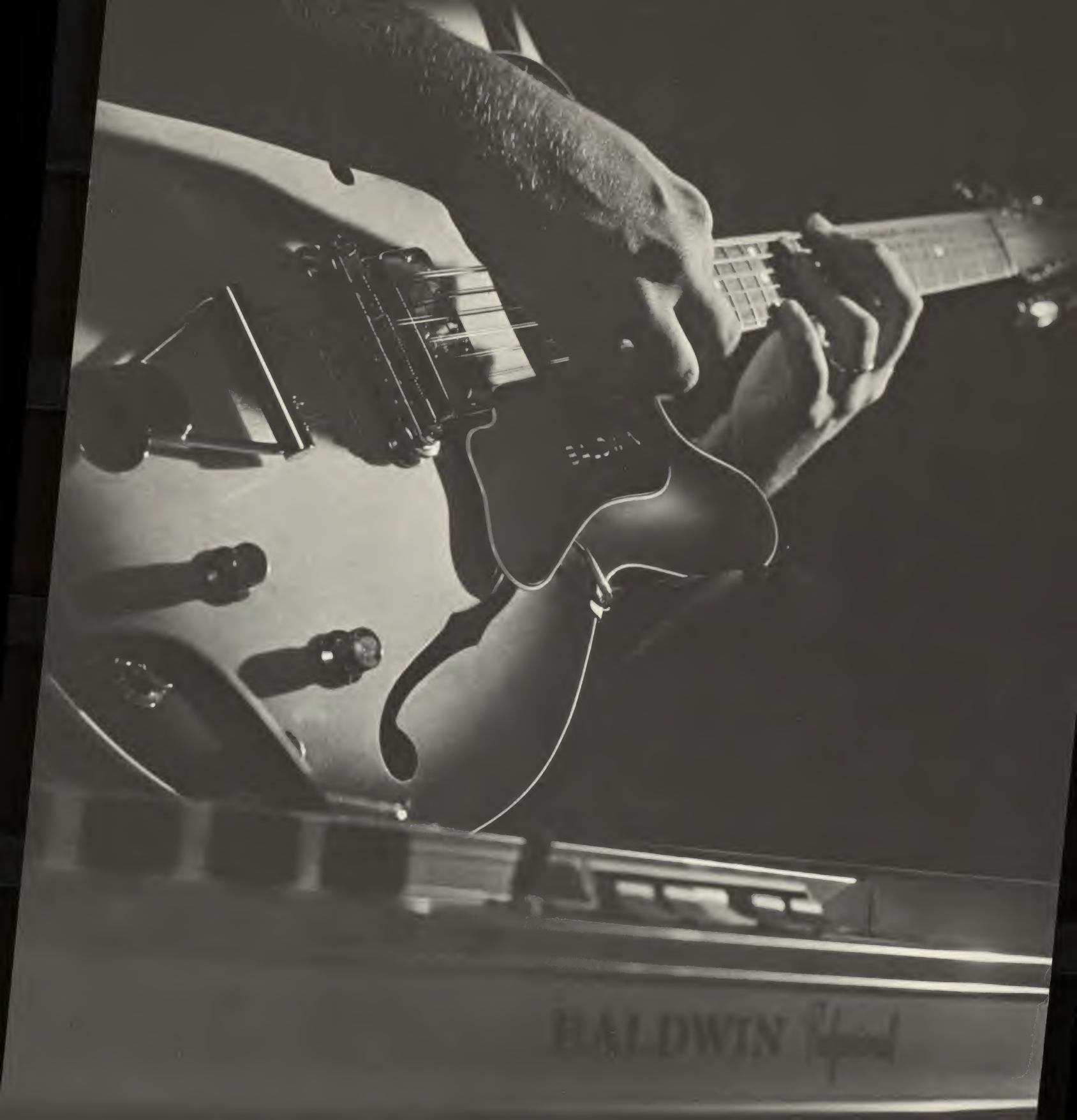
NET SALES
In thousands of dollars
■ musical instruments ■ other



EARNINGS AFTER TAXES
In thousands of dollars



Baldwin Is Organs. We've delved so deeply into making music electronically, we can do almost anything. Like theatre organs that are pure razzmatazz. Or majestic organs for modern worship. So any kind of organist will find a kind of Baldwin to do almost anything he wants.



BALDWIN *Electric*

PRESIDENT'S REPORT TO THE STOCKHOLDERS

During the year 1966, the company increased its growth and profitability. Sales increased 12.7 per cent over 1965 and earnings after taxes increased 10.8 per cent. For the first time in the company's history, sales exceeded \$40 million and profits after taxes exceeded \$2.9 million. This represents the fifth consecutive year of increases in both sales and profits. The comparative financial highlights of the past five years are shown on page 3 of this report.

Sales: The total company sales in 1966 were \$44,205,000, as compared with \$39,236,000 in 1965. This total is represented by \$41,498,000 in sales of musical instruments and \$2,707,000 in sales of nonmusical items. The musical instrument sales consist of pianos, organs, combo organs, guitars, banjos, electric harpsichords, and amplifiers. There were dollar increases in all categories. In pianos, there were increases in both grand and vertical pianos. In organs, the increases were concentrated in the sales of medium to high-priced home, entertainment, and church organs.

Since guitars and amplifiers were introduced in the latter part of 1965, there were substantial increases over the figures of the previous year. Public acceptance of the Baldwin line of guitars and amplifiers continues to grow, and the initial acceptance of electronic harpsichords and banjos is good.

The sales of nonmusical items increased slightly over the level of 1965. The decline in volume of influence fuzes was, in part, offset by the assembly of 2.75-inch rockets in Camden, Arkansas. Encoder sales increased over the previous year.

During the fourth quarter of 1966, there was a decline in the sale of keyboard musical instruments reflecting the national softening of demand for keyboard musical instruments. The total dollars of the company's sales of musical instruments during the fourth quarter were approximately the same as in the similar period of 1965.

Earnings: Net earnings per share were \$2.58 for 1966. The increased volume of musical instrument sales, the increase in the company's financing of installment sales, and improved efficiencies in the company's nonmusical business produced the highest volume of earnings in the company's history. The net earnings, after taxes, of the company for 1966 increased to \$2,904,000, compared with \$2,621,000 for 1965. Earnings before provision for federal income taxes were \$5,324,000, an increase of \$523,000 over the year 1965. However, provision for corporate income taxes increased from \$2,180,000 in 1965 to \$2,420,000 in 1966. Despite the increase in total earnings, the earnings for 1966 as a percentage of sales were lower than in 1965. The cost of goods sold increased more rapidly than did total sales. Increased costs of materials and labor accounted for these rising costs.

The return on the common stockholders' investment in the company rose to 12.1 per cent in 1966 from 11.7 per cent in 1965.

The increase in earnings per share over the past five years has been over 185 per cent. Each year has shown an increase over the prior year.

Baldwin is Guitars. To keep in tune with the times, we put all our musical, woodworking, and electronics savvy to work. We came up with Baldwin Guitars and Amplifiers. Plus a few things no one else has got like Supersound, PrismaTone, and a power-mad amp called The Exterminator.



Installment Financing: The volume of musical instrument installment consumer paper serviced by our Finance Department at year end was \$24,080,000. This represents an increase of \$3,290,000 over the volume of similar consumer paper held at December 31, 1965.

Company earnings from the financing of piano and organ sales increased over 1965. During the year, however, there was a substantial increase in the cost of borrowed money arising from the increasing pressures on our national financial resources. This cost of borrowing has increased our costs of operations in the financing portion of the company's business. Since the end of 1966, there has been a slackening in the national demand for credit. No change in Baldwin's consumer credit terms is contemplated. The company's rates are competitive with rates offered by competing financial institutions.

Corporate Financial Position: The Balance Sheet as of December 31, 1966, with comparative figures for prior year end is shown on pages 8 and 9. The Statement of Consolidated Income and Earnings Reinvested in the business with comparative figures for the prior year is shown on page 10. Reference should also be made to the Notes to Consolidated Financial Statements found on page 11. On December 31, 1966, total current assets amounted to \$53,276,000; total current liabilities \$29,768,000, a ratio of 1.8 to 1. During the year, the stockholders' equity increased from \$22,416,000 to \$24,007,000. This results in a book value, as of December 31, 1966, of \$21.29 a share.

Baldwin Is Combo Organs. The combo scene is where the action is. And where the action is Baldwin is . . . with combo organs that deliver the musical muscle for today's big beat. These precocious offspring will bark, drive, shake up any audience—which is what a combo's up to.

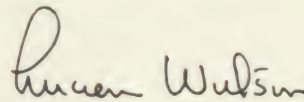
In December the company increased its quarterly dividend to 30 cents a share. The total dividends per share paid out in 1966 were \$1.05. The balance of the earnings, or \$1,713,000, was retained in the business.

Products: During the year, the company made further revisions in both piano and organ lines to reflect changes in style trends and to introduce new features in electronic musical instruments. The company presented a budget-priced grand piano named "Howard" built to the company's specifications by Kawai Musical Instruments Mfg. Co., Ltd., Japan. The company has acquired new facilities in Arkansas at DeQueen and Booneville to supply the increasing demand for electronic organs and amplifiers. In addition the company acquired facilities for the manufacture of banjos and also for the manufacture of electronic harpsichords. The Baldwin banjo is a high-quality stringed instrument. The electronic harpsichord is a new instrument with traditional harpsichord production of tone, but with amplification of the tone being made electronically. This instrument is of interest to musicians everywhere who are concerned with the sound of new music. The company has produced its line of guitars and amplifiers to cover a wider section of this competitive market. The concert grand piano style SD-10 introduced last year with its new sonorous image has impressed the critics and the listening public not only in this country but also abroad. This piano accompanied the Cincinnati Symphony Orchestra on its first round-the-world concert tour which was sponsored by the United States Department of State. The prestige of this new achievement in piano tone reflects favorably on the rest of the company's products.

Foreign Operations: The Baldwin Piano Company (Canada), Limited, moved into its new facilities, consisting of 25,000 square feet, located in the suburbs of Toronto. It has increased its production and sales during the past year. Baldwin-Burns, Limited, continues to produce guitars and amplifiers for sale not only in the United Kingdom, but in other parts of Europe and in the United States and Canada. C. Bechstein Pianofortefabrik AG. continues to produce the world-famous, high-quality Bechstein pianos.

Affiliate: During 1966, the company's interest in Siliconix Incorporated continued. The sales of this affiliate continued to grow. The integrated circuit and field-effect transistor industry enjoyed a period of growth, but a decline in unit prices. This affiliate showed increased profits over the previous year.

Respectfully submitted,



President

Cincinnati, March 14, 1967

CONSOLIDATED BALANCE SHEET
D. H. Baldwin Company and Subsidiaries

ASSETS

*Year ended December 31, 1966,
with comparative figures for 1965*

1966

1965

Current Assets:

Cash	\$ 1,665,787	\$ 1,393,062
Receivables, less allowance for possible losses, \$727,680 (\$738,205 in 1965)	24,250,854	21,609,161
Inventories (note 2):		
Finished goods:		
Consigned to dealers, less allowance for possible losses, \$300,000	\$10,343,919	\$8,904,369
In company warehouses and stores	6,870,894	4,381,128
	17,214,813	13,285,497
Work in process	4,485,580	3,340,907
Raw materials and supplies	5,061,451	3,332,941
	26,761,844	19,959,345
Prepaid expenses	597,318	254,911
Total Current Assets	53,275,803	43,216,479

Investments, Advances and Other Assets (note 3)	2,413,713	1,430,529
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Property, Plant and Equipment—at cost	9,591,401	8,177,065
Less accumulated depreciation	5,306,114	4,826,566
	4,285,287	3,350,499
	<u>\$59,974,803</u>	<u>\$47,997,507</u>

See accompanying notes to consolidated financial statements.

LIABILITIES and Stockholders' Equity

Year ended December 31, 1966,
with comparative figures for 1965

1966

1965

Current Liabilities:

Notes payable	\$17,177,128	\$ 7,972,305
Long term debt, current portion	400,000	400,000
Accounts payable	2,566,174	1,898,513
Accrued liabilities	4,136,479	4,056,835
Taxes on income (note 4)	5,487,804	4,653,967
Total Current Liabilities	29,767,585	18,981,620

Long Term Debt , less current portion (note 5)	6,200,000	6,600,000
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Stockholders' Equity (notes 5 and 6):

Capital stock:

6% cumulative preferred, par value \$100
per share. Authorized 2,327 shares;
issued 1,524 shares (1,613 in 1965)

\$ 152,400	\$ 161,300
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Cumulative preferred, par value \$100 per
share. Authorized 60,000 shares;
issued — none

—	—
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Common, without par value. Authorized
1,500,000 shares; issued 1,130,094
shares at stated value (1,118,294 in 1965)

4,520,376	4,473,176
4,672,776	4,634,476

Earnings capitalized and other additions to capital

454,877	368,712
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Earnings reinvested in the business

19,125,846	17,412,699
------------	------------

24,253,499	22,415,887
------------	------------

Less cost of 9,669 common shares in treasury

246,281	24,007,218	—	22,415,887
	<u>\$59,974,803</u>		<u>\$47,997,507</u>

STATEMENT OF CONSOLIDATED INCOME
and Earnings Reinvested in the Business
D. H. Baldwin Company and Subsidiaries

*Year ended December 31, 1966,
with comparative figures for 1965*

	1966	1965
Income:		
Net sales	\$44,205,413	\$39,236,097
Other revenues	<u>2,786,843</u>	<u>2,308,149</u>
	46,992,256	41,544,246
Expenses:		
Cost of products sold.....	29,878,049	26,390,857
Selling, administrative and general expenses.....	10,040,733	9,058,323
Depreciation and amortization.....	620,942	532,531
Interest	<u>1,128,827</u>	<u>761,881</u>
	41,668,551	36,743,592
Income before Federal income taxes.....	5,323,705	4,800,654
Federal income taxes	<u>2,420,000</u>	<u>2,180,000</u>
Net income for year.....	2,903,705	2,620,654
Earnings reinvested in the business at beginning of year.....	<u>17,412,699</u>	<u>18,037,941</u>
	20,316,404	20,658,595
Deduct:		
Dividends:		
Cash:		
Preferred stock—\$6.00 per share.....	9,469	9,678
Common stock—\$1.05 per share (1965—\$.925 per share)	1,181,089	1,031,530
Common stock—100%	<u>—</u>	<u>2,204,688</u>
	1,190,558	3,245,896
Earnings reinvested in the business at end of year.....	<u>\$19,125,846</u>	<u>\$17,412,699</u>
Net income per share of common stock.....	<u>\$2.58</u>	<u>\$2.33</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

D. H. Baldwin Company and Subsidiaries

December 31, 1966

(1) The consolidated financial statements for 1966 include the accounts of the company and all of its wholly-owned domestic and foreign subsidiaries, except with respect to a real estate company formed in 1966.

(2) In accordance with the company's consistent policy, inventories are stated at the lower of cost (first-in, first-out) or market less an allowance for possible losses on dealers consigned inventories with the exception that the valuation of certain work in process includes no manufacturing overhead costs. The omission of this overhead had no material effect upon net income after taxes.

(3) Investments in and advances to unconsolidated subsidiaries and affiliates are stated at values which are not in excess of the value of their underlying net assets. In previous years the unconsolidated subsidiaries were carried at cost. This change did not have a material effect on income in 1966.

(4) Deferred income taxes of \$4,274,105 (\$4,173,359 in 1965) arising from installment sales have been included in current liabilities.

(5) Long-term debt is represented by a 5% note, due December 20, 1978, payable in annual installments of \$400,000. The loan agreement contains certain restrictions on the payment of cash dividends on the company's common stock, and on the amounts which may be used for the purchase, redemption, or retirement of the company's capital stock. Approximately \$4,772,000 of the earnings reinvested in the business at December 31, 1966 is free of these restrictions.

(6) During 1966, options were exercised for 11,800 shares of the company's common stock. At December 31, 1966, there were outstanding options, under a plan for certain employees, to purchase 12,850 shares of common stock at a price not less than the market value on the date of granting.

In 1967 the company offered to redeem all of the 6% cumulative preferred stock outstanding for \$125.00 per share or by the issuance of five shares of common stock in exchange for one share of preferred stock.

(7) The company's pension plans are being funded. The total expense for the year was \$380,000, including amortization of past service cost over a remaining period of 19 years.

(8) Annual minimum rentals of leased buildings approximates \$550,000, with leases expiring at various dates to 1985.

ACCOUNTANTS' REPORT

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
Cincinnati, Ohio 45202

The Board of Directors and Stockholders
D. H. Baldwin Company:

We have examined the consolidated balance sheet of D. H. Baldwin Company and subsidiaries as of December 31, 1966 and the related statement of income and earnings reinvested in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and earnings reinvested in the business present fairly the financial position of D. H. Baldwin Company and subsidiaries at December 31, 1966 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

March 3, 1967

TEN YEAR COMPARATIVE STATEMENT OF OPERATIONS
D. H. Baldwin Company and Subsidiaries

In thousands of dollars

1966

1965

1964

Total Net Sales.....	\$44,205	\$39,236	\$36,267
Net Sales—Musical Instruments.....	41,498	36,746	33,702
Net Sales—Other	2,707	2,490	2,565
Earnings before taxes on income.....	5,324	4,801	3,987
Federal income taxes.....	2,420	2,180	1,900
Net earnings for the year.....	2,904	2,621	2,087
Per common share*.....	\$2.58	\$2.33	\$1.88
Cash dividends paid on common stock.....	1,181	1,032	606
Per common share*.....	\$1.05	\$.92½	\$.55
Annual earnings reinvested in the business.....	1,713	1,579	1,471
Stockholders' Equity	24,007	22,416	20,659
Book value per common share*.....	\$21.29	\$19.90	\$18.59

*Adjusted for stock dividends and splits, expressed in dollars.

1963

1962

1961

1960

1959

1958

1957

\$33,970	\$33,786	\$33,314	\$33,683	\$33,811	\$31,334	\$27,419
32,066	32,758	31,645	31,427	30,836	26,132	25,771
1,904	1,028	1,669	2,256	2,975	5,202	1,648
2,393	2,241	1,914	3,211	3,066	2,552	2,277
1,050	1,000	910	1,700	1,605	1,358	1,187
1,343	1,241	1,004	1,511	1,461	1,194	1,090
\$1.21	\$1.12	\$.90	\$1.36	\$1.32	\$1.08	\$.98
551	482	413	413	413	331	276
\$.50	\$.43¾	\$.37½	\$.37½	\$.37½	\$.30	\$.25
783	749	580	1,089	1,038	853	806
19,188	18,405	17,656	17,076	15,987	14,949	14,096
\$17.26	\$16.55	\$15.87	\$15.35	\$14.36	\$13.42	\$12.64



Baldwin is Banjos. Plink-a-plink plink, and all that jazz! The banjo's back on the scene, and music-minded Baldwin's in the swing of things with a whole band of banjos. Tenor, plectrum, or 5-string, Baldwin's the banjo that's got all the banjo players tickled plink.

DIRECTORS

Philip Wyman, *Honorary Chairman of the Board*
Robert E. Fanning
William M. Hickey
John F. Jordan
Lawrence H. Kyte
William A. Mitchell
James M. E. Mixter
A. J. Schoenberger
Morley P. Thompson
Eugene Wulsin
Lucien Wulsin

OFFICERS

Lucien Wulsin, *President*
A. J. Schoenberger, *Vice President*
John F. Jordan, *Vice President*
James M. E. Mixter, *Vice President*
Eugene Wulsin, *Vice President*
Morley P. Thompson, *Treasurer*
R. F. Coghill, *Secretary*
Charles G. Lindeman, *Controller*
Irwin Stumborg, *Assistant Treasurer*
R. S. Harrison, *Assistant Treasurer*
L. H. Ellis, *Assistant Secretary*

GENERAL OFFICES

Cincinnati, Ohio

SUBSIDIARIES

Baldwin Piano & Organ Company
The Baldwin Piano Company (Canada) Limited
Baldwin Electronics, Inc.
Baldwin Export Corporation
C. Bechstein Pianofortefabrik AG.
Baldwin-Burns, Limited
Baldwin Musical Instruments Company
The Baldwin Company

MANUFACTURING PLANTS

Booneville, Camden, Conway, DeQueen,
Fayetteville, Little Rock, Arkansas;
Cincinnati, Ohio; Cambridge, Massachusetts;
Greenwood, Mississippi; Boulder, Colorado;
Toronto, Canada; West Berlin and Karlsruhe,
West Germany; London, England

AFFILIATE

Siliconix, Incorporated

DEALERS OR COMPANY-OWNED SALES OUTLETS

In all principal cities in the
United States, and abroad.



Baldwin is Electronics. The most sophisticated techniques of space age electronics are at Baldwin's fingertips. Our continuing musical instrument development demands it. So do all the other non-musical electronic products, like analog-to-digital encoders, we're just as famous for.

Baldwin is Harpsichords. The meek little 400-year-old harpsichord needed a pickup. So we gave it four (like on our guitars). And did it ever go! It'll go baroque, or rock, or country, or symphonic, or jazz, or popular. Wild things happen when you play around with a harpsichord.





D. H. BALDWIN COMPANY
Cincinnati, Ohio 45202